

**KANE COUNTY  
WATER CONSERVANCY DISTRICT**

**FINANCIAL STATEMENTS  
with  
REPORT OF INDEPENDENT AUDITORS**

**TWELVE MONTH PERIOD ENDING  
JUNE 30, 2005**

**KANE COUNTY WATER CONSERVANCY DISTRICT  
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# Wilson & Company

Certified Public Accountants / A Professional Corporation

## INDEPENDENT AUDITOR'S REPORT

The Board of Trustees of the  
Kane County Water Conservancy District  
Kanab, Utah 84741

We have audited the accompanying financial statements of the Kane County Water Conservancy District (District) as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2006 on our consideration of District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The supplemental schedules listed in the foregoing table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the District. These schedules are the responsibility of the District's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

  
WILSON & COMPANY  
Certified Public Accountants

Cedar City, Utah  
March 7, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Kane County Water Conservancy District (KCWCD), we offer readers of the KCWCD's financial statements this narrative discussion, overview, and analysis of the financial activities for the fiscal year ending June 30, 2005. We encourage readers to consider the information presented here as an overview of the operations of the KCWCD. This discussion and analysis is not intended to cover every aspect of the daily activities found at the KCWCD.

### Financial Highlights

- The KCWCD, along with the state of Utah and other state institutions of higher education, implemented new accounting standards for the fiscal year ending June 30, 2002 as promulgated by the Governmental Accounting Standards Board (GASB). These new standards represent major changes in the way governments and agencies report financial data in the form of financial statements. This year is the third year of the transition to these new formats and so there is comparative data reported.
- The KCWCD budget for Fiscal Year (FY) ending June 30, 2005 was \$4,100,000, as compared with a budget for FY 2004 in the amount of \$3,351,000. The \$749,000 or 22% increase in the operating budget was due primarily to the additional loan/grant funds needed to complete construction of a new water delivery system on Cedar Mountain.
- The KCWCD's primary goal for FY 2004-5 was to complete a new water distribution system for the Strawberry subdivision on Cedar Mountain. Also, KCWCD will begin construction of a new water delivery system in the Meadow View Heights area, which should be completed by December 2005. Since 2000 there have been nine (9) private water companies transfer control of their water systems to the KCWCD.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the KCWCD's basic financial statements. The financial statements are comprised of three components; the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows. This report also contains other supplementary information in addition to the basic financial statements themselves to give the reader an overall view of the KCWCD as a whole. The financial statements are designed to provide readers with a broad overview of the KCWCD's finances, in a manner similar to a private-sector business.

### Statement of Net Assets

The *statement of net assets* presents information on all of the assets and liabilities of the KCWCD, with the difference between the two reported as *net assets*. *Invested in capital assets* are the fixed assets of the KCWCD reduced by accompanying debt and accumulated depreciation. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the KCWCD is improving or deteriorating.

### Condensed Statement of Net Assets and Comparison to FY 2004

	2004-2005	2003-2004
Current and other assets	\$ 1,889,718	\$ 1,415,126
Capital assets	<u>\$ 15,066,126</u>	<u>\$ 7,531,813</u>
Total assets	\$ 16,955,844	\$ 8,946,939
Long-term liabilities outstanding	\$ 5,304,067	\$ 2,721,910
Other liabilities	<u>\$ 1,962,905</u>	<u>\$ 471,784</u>
Total liabilities	\$ 7,266,972	\$ 3,193,694
Net assets:		
Invested in capital assets, net of related debt	\$ 8,716,269	\$ 4,781,213
Restricted	\$ 396,712	\$ 372,877
Unrestricted	<u>\$ 575,891</u>	<u>\$ 599,155</u>
Total net assets	\$ 9,688,872	\$ 5,753,245

As noted earlier, net assets may serve over time as a useful indicator of an institution's financial position. In the case of the KCWCD, net assets increased by \$3,935,627 or 68% at the close of the most recent fiscal year. The majority of KCWCD's net assets, approximately 9.7 million or 57% of total assets, reflects its investment primarily in capital (e.g., land, buildings, water system improvements, furniture and equipment). The KCWCD uses these capital assets to provide services to customers so, consequently, the majority of these assets are not available for future spending. Although the KCWCD's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net assets, \$575,891, may be used to meet the KCWCD's ongoing obligations to customers, employees, and creditors.

#### Statement of Revenues, Expenses and Changes in Net Assets

This *statement of revenues, expenses and changes in net assets* presents information showing how the net assets of the KCWCD changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The breakdown of "Operating" and Non-operating" categories are defined by accounting standards. The KCWCD experienced a revenue increase in state appropriations and federal grants, as described earlier, and an increase in other grants and user fees. The greatest increases in expenses came from capital construction costs.

### Condensed Statement of Revenues, Expenses and Changes in Net Assets

	<u>FY '04-05</u>	<u>FY '03-04</u>
Operating Revenues	\$ 285,420	\$ 119,918
Operating Expenses	<u>\$ 836,543</u>	<u>\$ 510,958</u>
Operating Loss	\$ ( 551,123)	\$ ( 391,040)
Non-operating Revenue	\$ 4,715,014	\$ 3,063,861
Non-operating Expense	<u>\$ (228,264)</u>	<u>\$ (61,484)</u>
Non-operating gain	<u>\$ 3,935,627</u>	<u>\$ 2,978,790</u>
Change in Net Assets	3,935,627	2,587,750
Net Assets-Beginning of Year	<u>\$ 5,753,245</u>	<u>\$ 3,165,495</u>
Net Assets - End of Year	<u>\$ 9,688,872</u>	<u>\$ 5,753,245</u>

### Statement of Cash Flows

The *Statement of Cash Flows* provides an additional perspective of the KCWCD's financial results for the fiscal year. It provides a source and use of cash by a broad category of activity.

### Condensed Statement of Cash Flows

	<u>FY '04-05</u>	<u>FY '03-04</u>
Cash provided (used) by:		
Operating Activities	\$ 428,914	\$ (117,462)
Non-capital Financing Activities	\$ 2,777,093	\$ 1,590,931
Capital Financing Activities	\$ (3,310,913)	\$ (1,340,140)
Capital Investing Activities	<u>\$ 19,142</u>	<u>\$ 38,631</u>
Net Increase (Decrease) in Cash	<u>\$ (85,764)</u>	<u>\$ (171,960)</u>
Cash - Beginning of Year	<u>\$ 674,382</u>	<u>\$ 502,422</u>
Cash - End of Year	<u>\$ 588,618</u>	<u>\$ 674,382</u>

### Notes to the financial statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found at the end of this report.

### KCWCD statistical/financial information

The KCWCD's tax rate has been reduced an average of 4.4% a year since 2000. It was due primarily to the new growth within Kane County of which a majority came from new sales in the Cedar Mountain area. There were 960 customers served at FY end by the KCWCD year

round culinary water system of which 94% were from the Cedar Mountain area. The number of customers will increase to approximately 1400 during the next FY when the new Meadow View Heights system also located on Cedar Mountain will be completed. The majority of the funding needed for the new waterline construction came from loan interest loans and grants obtained through the Utah Drinking Water Board and from USDA-RUS. The total grants received by KCWCD since 2000 total \$3,590,321.

**KCWD customer accounts served since 2000 (ave. 368 per year)**

<u>FY 2000-1</u>	<u>FY 2001-2</u>	<u>FY 2002-3</u>	<u>FY 2003-4</u>	<u>FY 2004-5</u>
51	142	174	514	960

**KCWCD tax rate change since 2000 at .974 mill (ave. 4.4% reduction per year)**

<u>FY 2000-1</u>	<u>FY 2001-2</u>	<u>FY 2002-3</u>	<u>FY 2003-4</u>	<u>FY 2004-5</u>
.000964	.000936	.000868	.000847	.000775

**KCWCD grants received since 2000 (ave. \$ 718,064 per year)**

<u>FY 2000-1</u>	<u>FY 2001-2</u>	<u>FY 2002-3</u>	<u>FY 2003-4</u>	<u>FY 2004-5</u>
\$65,638	\$391,474	\$12,000	\$991,688	\$2,129,521

**Requests for Information**

This financial report is designed to provide a general overview of the Kane County Water Conservancy District's finances for all those with an interest in government finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Randall Brown, Accountant/Office Manager, 190 W. Center St. #200 Kanab, Utah 84741 telephone: (435) 644-3997.



**KANE COUNTY WATER CONSERVANCY DISTRICT****Statement of Net Assets****Proprietary Fund**

June 30, 2005

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
<b>Assets</b>		
Current assets:		
Cash & cash equivalents	\$ 588,618	\$ 674,382
Accounts receivable	102,339	661,138
Property tax receivable	53,258	45,458
Notes receivable	1,145,503	34,148
Total current assets	<u>1,889,718</u>	<u>1,415,126</u>
Long-term assets:		
Construction in progress	2,472,113	754,298
Capital assets, net of accumulated depreciation	12,594,013	6,777,515
Total long-term assets	<u>15,066,126</u>	<u>7,531,813</u>
Total assets	<u>16,955,844</u>	<u>8,946,939</u>
<b>Liabilities and Net Assets</b>		
Liabilities :		
Current liabilities:		
Accounts payable	894,375	427,395
Payroll taxes payable	2,634	
Accrued interest payable	20,106	15,499
Deposits payable		200
Bonds payable - due withing one year	1,045,790	28,690
Total current liabilities	<u>1,962,905</u>	<u>471,784</u>
Non-current liabilities		
Bonds payable after one year	5,304,067	2,721,910
Total non-current liabilities	<u>5,304,067</u>	<u>2,721,910</u>
Total liabilities	<u>7,266,972</u>	<u>3,193,694</u>
Net assets:		
Invested in capital assets, net of related debt	8,716,269	4,781,213
Restricted for:		
Debt service	396,712	372,877
Unrestricted	575,891	599,155
Total net assets	<u>\$ 9,688,872</u>	<u>\$ 5,753,245</u>

The notes to the financial statements are an integral part of this statement.

**KANE COUNTY WATER CONSERVANCY DISTRICT**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Proprietary Fund**  
**Year Ended June 30, 2005**

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
<b>Operating revenues:</b>		
Water sales revenue	\$ 285,420	\$ 96,331
Total operating revenues	<u>285,420</u>	<u>119,918</u>
<b>Operating expenses:</b>		
Administrative expenses	98,600	91,154
Insurance expense	26,324	7,121
Travel & mileage expense	5,957	4,701
Meeting expense & public notices	8,576	12,729
Miscellaneous expense	4,514	253
Office, secretary, & utilities	60,897	46,991
Professional expenses	37,601	35,760
Repairs & maintenance	95,726	72,851
Depreciation expense	418,604	209,479
Water monitoring	23,363	23,345
Water management expense	56,381	6,574
Total operating expenses	<u>836,543</u>	<u>510,958</u>
Operating income (loss)	(551,123)	(391,040)
<b>Nonoperating income (expense):</b>		
Property tax revenue	655,372	607,999
Grant revenue	2,129,521	991,688
Interest earnings	19,142	38,631
Impact fees	1,325,367	1,069,310
Connection Fees	458,090	332,646
Miscellaneous	127,522	23,587
Interest & fiscal charges	(205,264)	(37,184)
Grant expense	(23,000)	(24,300)
Total nonoperating income	<u>4,486,750</u>	<u>2,978,790</u>
Net income	<u>3,935,627</u>	<u>2,587,750</u>
Change in net assets	3,935,627	2,587,750
<b>Net assets - beginning</b>	<u>5,753,245</u>	<u>3,165,495</u>
<b>Net assets - ending</b>	<u>\$ 9,688,872</u>	<u>\$ 5,753,245</u>

The notes to the financial statements are an integral part of this statement.

# KANE COUNTY WATER CONSERVANCY DISTRICT

## Statement of Cash Flows

### Major Proprietary Funds

Year Ended June 30, 2005

	June 30, 2005	June 30, 2004
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 844,219	\$ 130,103
Cash payments to suppliers for goods and services	(415,305)	(247,565)
Net cash provided (used) by operating activities	<u>428,914</u>	<u>(117,462)</u>
<b>Cash flows from noncapital financing activities:</b>		
Property tax revenue	647,572	599,243
Grant revenue	2,129,521	991,688
Net cash (used) by noncapital financing activities	<u>2,777,093</u>	<u>1,590,931</u>
<b>Cash flows from capital and related financing activities:</b>		
Cash received from impact and connection fees	672,102	938,718
Other receipts (payments)	104,323	(24,300)
Acquisition of capital assets	(7,485,937)	(3,867,644)
Interest paid on capital debt	(201,658)	(34,429)
Proceeds from new bonds issued	3,768,005	1,760,600
Principal paid on long-term bonds and notes payable	(167,748)	(113,085)
Net cash (used) by capital and related activities	<u>(3,310,913)</u>	<u>(1,340,140)</u>
<b>Cash flows from investing activities</b>		
Interest received	19,142	38,631
Net cash (used) by investing activities	<u>19,142</u>	<u>38,631</u>
Net increase in cash and cash equivalents	<u>(85,764)</u>	<u>171,960</u>
<b>Cash and Cash Equivalents - Beginning</b>	<u>674,382</u>	<u>502,422</u>
<b>Cash and Cash Equivalents - Ending</b>	<u>\$ 588,618</u>	<u>\$ 674,382</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ (551,123)	\$ (391,040)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	418,604	209,479
Increase decrease in notes receivable		9,985
Increase decrease in accounts receivable	558,799	-
Increase decrease in accounts payable		53,914
Increase decrease in payroll taxes payable	2,634	-
Increase decrease in deposits payable		200
Total adjustments	<u>980,037</u>	<u>273,578</u>
Net cash provided (used) by operating activities	<u>\$ 428,914</u>	<u>\$ (117,462)</u>

The notes to the financial statements are an integral part of this statement.

**KANE COUNTY**  
**WATER CONSERVANCY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Kane County Water Conservancy District, a Utah political subdivision, (the District) is organized under the Utah Water Conservancy Act of the State of Utah. The District operates under a board of directors appointed by Kane County and provides conservation and development of water resources to the residents of the District. The District is not a component unit of any other governmental entity, and it has no component units.

The accounting policies of the Kane County Water Conservancy District conform to accounting principles generally accepted in the United States of America as applicable to government units. The District develops, purchases, treats, and sells water to retail and wholesale customers and operates in no other industry. The following is a summary of the more significant of such policies.

**A. Reporting Entity**

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the exercise of special financial relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, no potential component units have been included in defining the District's reporting entity.

**B. Financial Statement Presentation**

The District has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Disclosures*. These statements require governmental entities with more than one governmental activity to present additional accrual-based statements to better communicate the financial status of the entity. The significant changes to the District's financial statements relating to these standards are the Management's Discussion and Analysis and the titles and presentation of the financial statements to conform to the net asset presentation.

**KANE COUNTY**  
**WATER CONSERVANCY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2005

The District reports its water development, production, storage, and distribution operations as a proprietary fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements of the District are based on all applicable Government Accounting Standards Board (GASB) pronouncements as well as applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Review Boards of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB Pronouncements. FASB pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying financial statements.

**C. Cash Equivalents**

The District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the Utah Public Treasurers' Investment Fund are also considered cash equivalents.

**D. Capital Assets**

Capital assets include property, and plant equipment. Capital assets are defined by the District as assets with an initial unit cost of \$2,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the District are depreciated using the straight-line method over the following useful lives (see Note 5 for further detail).

<u>Assets</u>	<u>Years</u>
Buildings	40
Water System	25
Furniture	10
Equipment	5-10

**KANE COUNTY  
WATER CONSERVANCY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

**E. Operating Revenues and Expenses**

The statement of revenues, expenses, and changes in net assets distinguishes between operating and non-operating revenues. For this purpose, operating revenues, such as user fees, result from exchange transactions associated with the principal activities of the District. Exchange transactions are those in which each party to the transactions receives or gives up essentially equal values. Nonoperating revenues arise from exchange transactions not associated with the Districts principal activities (such as investment income) and from all nonexchange transactions (such as grants).

**F. Net Assets**

The District's net assets are classified as follows:

*Invested in capital assets, net of related debt:* This represents the District's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets.

*Restricted - expendable:* Restricted expendable net assets include resources which the District is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

*Unrestricted:* Unrestricted net assets represent resources derived from user fees and intergovernmental appropriations. These resources are used for transactions relating to the solid waste and television activities of the District, and may be used at the discretion of the governing board to meet current expenses for any legal purpose.

**G. Property Tax**

Kane County assesses all taxable property other than centrally-assessed property, which is assessed through the state, by May 22 of each year. The District should adopt a final tax rate prior to June 22, which is then submitted to the state for approval. Property taxes are due on November 30 of each year. Delinquent taxes are subject to a penalty of 2% or \$10.00, whichever is greater. After January 15 of the following year, delinquent taxes and penalty bear interest of 6% above the federal discount rate from January 1 until paid.

Property taxes attach as an enforceable lien on property as they become delinquent. All unpaid taxes levied during the year become delinquent December 1 of the current year.

Property tax revenues are recognized when they become measurable and available. Amounts available include those property tax receivables expected to be collected within sixty days after year end

**KANE COUNTY**  
**WATER CONSERVANCY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2005

**H. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

**NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

The District maintains a cash and investment pool, which includes the cash account and several investments.

The District's deposit and investment policy is to follow the Utah Money Management Act. However, the District does not have a separate deposit or investment policy that addresses specific types of deposit and investment risks to which the District is exposed.

Utah State law requires that District funds be deposited with a "qualified depository" as defined by the Utah Money Management Act. "Qualified depository" includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements as defined in Rule 11 of the Utah Money Management Act. Rule 11 establishes the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and defines capital requirements which an institution must maintain to be eligible to accept public funds.

The Utah Money Management Act also governs the scope of securities allowed as appropriate temporary investments for the District and conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

As of June 30, 2005, the District had the following deposits and investments:

<u>Deposit and investment type</u>	<u>Fair Value</u>
Cash on deposit	\$ 5,011
State Treasurer's investment pool	<u>583,607</u>
	\$ <u>588,618</u>

**KANE COUNTY**  
**WATER CONSERVANCY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE 2: CASH AND INVESTMENTS - CONTINUED**

*Interest rate risk.* The District manages its exposure to declines in fair value by only investing in the Utah Public Treasurers Investment Fund.

*Credit risk.* As of June 30, 2005 the Utah Public Treasurer's Investment Fund was unrated.

*Concentration of credit Risk.* The District's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

*Custodial credit risk - deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2005 none of the deposits were exposed to custodial credit risk because it was uninsured or uncollateralized.

*Custodial credit risk - investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments that are in the possession of an outside party. The District's investment in the Utah Public Treasurer's Investment Fund has no custodial credit risk.

Components of cash and investments (including interest earning deposits) at June 30, 2005, are as follows:

Cash on hand and on deposit:

Cash on deposit	\$ 5,011
Utah State Treasurer's investment pool account	<u>583,607</u>
Total cash and investments	\$ <u>588,618</u>

Cash and investments are included in the accompanying combined statement of net assets as follows:

Cash and cash equivalents	\$ <u>588,618</u>
Total cash and investments	\$ <u>588,618</u>



**KANE COUNTY  
WATER CONSERVANCY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

**NOTE 3. RISK MANAGEMENT:**

The District is subject to various types of risk such as tort actions, theft, damage, or destruction of assets by intent or acts of Nature, and job related illness or injury. The District has procured insurance which, in District's estimation, is adequate to reduce the risk of loss to a manageable level.

**NOTE 4. JOINT VENTURE AGREEMENTS – ORDERVILLE IRRIGATION COMPANY:**

On September 10, 1998 the District entered into a water development agreement with the Orderville Irrigation Company. The agreement provided for an expansion of the water pipeline which carries water from the East Fork of the Virgin River to the Cove Reservoir. This expanded water pipeline will be used jointly by the District and by the Orderville Irrigation Company. The agreement provides for an annual payment by the District to the Irrigation Company for the District's pro-rata portion of the water development project and related operating and maintenance costs.

**NOTE 5. CHANGES IN LONG-TERM DEBT:**

The following is a summary of bonds payable of the District for the fiscal year ended June 30, 2005:  
Revenue Bonds-

<b>Proprietary Fund Debt:</b>	<b>Balance 6/30/2004</b>	<b>Issued</b>	<b>Matured</b>	<b>Balance 6/30/2005</b>
Water Revenue Bonds 8/29/00	240,000		12,000	228,000
Water Revenue Bonds 2/5/02	750,000			750,000
Water Revenue Bonds 6/17/04	1,760,600.00		16,965	1,743,635
Revenue Bond - Jackson Land 06/17/04	-	750,040	139,783	610,257
Water Revenue Bonds 06/14/04	-	2,167,400		2,167,400
Water Revenue Bond Anticipation Note 06/14/05	-	850,565		850,565
<b>Total Proprietary Fund Debt</b>	<b>2,750,600</b>	<b>3,768,005</b>	<b>168,748</b>	<b>6,349,857</b>

**KANE COUNTY**  
**WATER CONSERVANCY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2005

The District's total bonded debt service at June 30, 2005 was as follows;

Year Ending June 30	Principal	Interest	Total
2006	1,045,790	193,255	1,239,045
2007	231,026	205,815	436,841
2008	239,082	197,710	436,792
2009	248,402	189,315	437,717
2010	89,732	182,037	271,769
2011-2016	611,808	1,021,990	1,633,797
2017-2022	735,922	880,151	1,616,073
2023-2028	716,740	713,240	1,429,980
2029-2034	693,419	543,561	1,236,980
2035-2040	897,519	339,462	1,236,980
2041-2045	840,418	86,460	926,878
Totals	<u>6,349,857</u>	<u>4,552,995</u>	<u>10,902,852</u>

Revenue Bonds at June 30, 2005 consist of the following;

\$ 273,000 Water Revenue Bonds issued 8/29/00.  
Issued by Utah Drinking Water Board. Due in  
annual installments of \$16,000 to \$18,000  
through year 2021. Interest rate of 2.41% APR. 228,000

\$ 750,000 Water Revenue Bonds issued 2/5/02.  
Issued by Utah Drinking Water Board. Due in  
annual installments of \$48,231 to \$49,104  
through year 2026. Interest rate of 2.62% APR. 750,000

\$ 1,760,600 Water Revenue Bonds issued 6/17/04.  
Issued by Rural Development. Due in  
Monthly installments of \$7,782  
through year 2044. Interest rate of 4.375% APR. 1,743,635

\$ 750,000 Water Revenue Bonds issued 6/17/04.  
Due in semiannual installments of \$82,411  
through year 2009. Interest rate of 3.5% APR. 610,257

\$ 2,167,400 Water Revenue Bonds issued 6/14/04.  
  
Issued by Rural Development. Due in  
Monthly installments of \$9,407  
through year 2045. Interest rate of 4.250% APR. 2,167,400

**KANE COUNTY**  
**WATER CONSERVANCY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2005

\$ 2,500,000 Bond anticipation bond issued 6/14/04.  
Due upon completion of construction of  
District's Meadow Heights 2005 Water Project.  
The Bond Anticipation bonds will be paid off  
By the Issuance of \$2,500,000 Revenue bonds issued  
By Rural Development. Bond proceeds issued to date  
Amount to \$850,565.

Total Revenue Bonds payable at June 30, 2005

850,565  
\$ 6,349,857

**KANE COUNTY**  
**WATER CONSERVANCY DISTRICT**  
Notes to Financial Statements  
June 30, 2005

**NOTE 6: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business type activities:</b>				
Capital assets, not being depreciated				
Land, water rights & easements	\$ 689,262	\$ 817,567		\$ 1,506,829
Construction in progress	754,298	1,717,815		2,472,113
Total capital assets, not being depreciated	1,443,560	2,535,382	-	3,978,942
Capital assets, being depreciated:				
Water utility system	5,530,560	5,417,536		10,948,096
Machinery & Equipment	899,883			899,883
Total capital assets, being depreciated	6,430,443	5,417,536	-	11,847,979
Accumulated depreciation for:				
Water utility system	265,882	347,307		613,189
Machinery & Equipment	76,308	71,298		147,606
Total accumulated depreciation	342,190	418,605	-	760,795
Total capital assets, being depreciated, net	6,088,253	4,998,931	-	11,087,184
Governmental activities capital assets, net	\$ 7,531,813	\$ 7,534,313	\$ -	\$ 15,066,126

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## KANE COUNTY WATER CONSERVANCY DISTRICT REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Trustees of the  
Kane County Water Conservancy District

We have audited the basic financial statements of the Kane County Water Conservancy District (District) as of and for the year ended June 30, 2005, and have issued our report thereon dated March 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

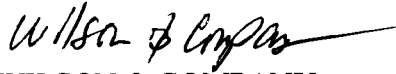
In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Kane County Water Conservancy District  
Page 2

This report is intended solely for the information and use of the District and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
WILSON & COMPANY  
Certified Public Accountants

Cedar City, Utah  
March 7, 2006

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## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Board of Trustees of the  
Kane County Water Conservancy District  
Kanab, Utah 84741

### Compliance

We have audited the compliance of Kane County Water Conservancy District, Utah (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

### Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the board of trustees, management, the Utah State Auditor, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



WILSON & COMPANY  
Certified Public Accountants

Cedar City, Utah  
March 7, 2006



**KANE COUNTY WATER CONSERVANCY DISTRICT, UTAH**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended June 30, 2005

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of Kane County Water Conservancy District, Utah.
2. No reportable conditions relating to the audit of the financial statements are reported in the Auditor's report on Internal Control and Compliance With Laws and Regulations.
3. No instances of noncompliance material to the financial statements of Kane County Water Conservancy District, Utah were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs is reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Kane County Water Conservancy District, Utah expresses an unqualified opinion.
6. There were no findings relative to the major federal award programs for Kane County Water Conservancy District, Utah.
7. The programs tested as major programs are: Water and Waste Disposal Systems for Rural Communities Program CFDA number 10.760.
8. The threshold for distinguishing Type A programs is the larger of \$300,000 or 3% of all federal awards expended. Type B programs are those which are the larger of \$100,000 or 3% of total federal awards expended.
9. Kane County Water Conservancy District, Utah was determined to be a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

None.

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None.

**KANE COUNTY WATER CONSERVANCY DISTRICT, UTAH**  
**SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF**  
**FEDERAL AWARDS**  
**For the Year Ended June 30, 2005**

<u>Federal Assistance Programs</u>				
<u>Agency\Program Grant Title</u>	<u>CFDA #</u>	<u>Grantor Agency</u>	<u>Direct or Indirect</u>	<u>Amount of Expenditures</u>
<u>Department of Agriculture:</u>				
Water and Waste Disposal Systems for Rural Communities	10.760	US Dept. of Agriculture	Direct	* \$ 1,572,732
Total Department of Agriculture				<u>1,572,732</u>
Total Federal Assistance				<u>\$ 1,572,732</u>

\* Denotes a Major Program

**KANE COUNTY WATER CONSERVANCY DISTRICT, UTAH**  
**NOTES TO THE SCHEDULE OF EXPENDITURES**  
**OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2005**

NOTE 1: PURPOSE OF THE SCHEDULE

The Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of Cedar City, Utah. The District reporting entity is defined in Note 1 to the District's government-wide financial statements. All federal financial awards received directly from federal agencies as well as federal financial awards passed through from other government agencies are included on the schedule.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The information in the schedule is presented in accordance with OMB circular A-133. The schedule is prepared using the same accounting policies and basis of accounting as the basic financial statements and is described in Note 1 to the City's government-wide financial statements.

CFDA Numbers

OMB Circular A-133 requires the schedule to show the total expenditures for each of the entity's federal financial assistance programs as identified in the Catalog of Federal Domestic assistance (CFDA). The CFDA is a government-wide compendium of individual federal programs. Each program included in the CFDA is assigned a five-digit program identification number (CFDA number).

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Certified Public Accountants / A Professional Corporation

## KANE COUNTY WATER CONSERVANCY DISTRICT INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE FISCAL LAWS

Kane County Water Conservancy District  
Kanab, Utah

We have audited the general purpose financial statements of the Kane County Water Conservancy District, for the year ended June 30, 2005 and have issued our report thereon dated March 7, 2006. Our audit included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Truth in taxation & Property
- Tax Limitations
- Special Districts
- Other General Compliance Requirements

The District did not receive any major or nonmajor State grants during the year ended June 30, 2005.

The management of the Kane County Water Conservancy District, is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with the requirements. We believe that our audit provides a reasonable basis for our opinion.

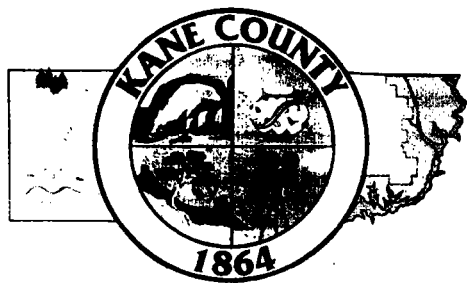
The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

Kane County Water Conservancy District  
Page 2

In our opinion the Kane County Water Conservancy District complied, in all material respects, with the general compliance requirements identified above for the year ended June 30, 2005.

  
WILSON & COMPANY  
Certified Public Accountants

Cedar City, UT  
March 7, 2006



## KANE COUNTY WATER CONSERVANCY DISTRICT

190 W. Center Street, Suite 200 • Kanab, UT 84741  
(435) 644-3997 • Fax (435) 644-8679 • Email: kcwcd@kanab.net

April 14, 2006

Wilson & Company  
360 W. 200 N.  
Cedar City, UT 84720  
Scott Wilson, CPA

Dear Scott:

This is to formally reply to your management letter regarding your audit of the Kane County Water Conservancy District for fiscal year ending June 30, 2005. Please note below our response to the issues you brought to our attention.

1. Accounting System:

The District has recently upgraded its' Quick-books accounting software. The new version will provide better controls regarding date sensitive transactions because each accounting period is closed with password protection.

2. Bank Reconciliation:

There was interest earned in the District's checking account of a minor amount that was credited to a subsequent accounting period in error. The District's accountant will review all future bank reconciliation's to insure that interest is posted to the appropriate month it was earned.

Sincerely,

Randall Brown, Office Manager/Accountant  
Kane County Water Conservancy District  
190 West Center St. #200  
Kanab, Utah 84741

CC: State of Utah  
Eckhard Bauer  
Tele: (801) 538-1394

# *Wilson & Company*

Certified Public Accountants / A Professional Corporation

December 9, 2004

Kane County Water Conservancy District  
Kanab, Utah

We have examined the financial statements of the Kane County Water Conservancy District for the year ended June 30, 2005 and have issued out reports thereon dated March 7, 2005. As part of our examination, we made a study and evaluation of the District's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the District's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the Kane County Water Conservancy District is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related cost of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

Our study and evaluation was made for the purpose described in the first paragraph and would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Kane County Water Conservancy District taken as a whole. However, our study and evaluation disclosed the following conditions that we believe require the District's further attention.

## Bank Reconciliations

We noted during our audit that there were several reconciling journal entries required to reflect interest earned in the correct accounting period of June 2005. The District uses quick-books software to process accounting transactions. The quick-books software is very date sensitive and transactions recorded with transaction dates beyond the June 30, 2005 fiscal year end are not reflected on the June 30, 2005 general ledger cutoff.

We recommend that the District exercise care when positing interest so that the interest is posted to the correct accounting period. This is especially important for year-end cut off transactions at fiscal year-end.

Accounting System

We noted during our audit that the District uses Quick-books software to process general ledger transactions. The version of Quick-books that the District is presently using does not allow for true accounting period processing. The transaction processing is very date sensitive. This allows for errors to unknowingly be posted into the general ledger simply by entering an incorrect transaction date. In addition, as the District continues to grow the present version of the Quick-books software will be challenged to keep pace.

We recommend that the District consider upgrading to a software package that corrects the situations noted and that has the ability to grow with the District.

The above conditions were considered in determining the nature, timing and extent of the audit tests applied in our examination of the District's June 30, 2005, financial statements.

Our comments are intended to be constructive in nature. The absence of positive or complimentary comments does not imply that the District operates in an inefficient or ineffective manner. We welcome the opportunity to discuss these conditions in further detail and express our appreciation for your assistance during the examination.

This report is intended solely for the use of management and the Utah State Auditor and should not be used for any other purpose.

  
WILSON & COMPANY  
Certified Public Accountants

Cedar City, UT  
March 7, 2006